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THE 1990 FARM ACT AND THE 1990 BUDGET RECONCILIATION ACT

How U.S. Farm Policy Mechanisms
Will Work Under New Legislation

*Includes Description of Target Prices, Loan
Rates, Deficiency Payments, and New
Planting Flexibility Provisions*

PREFACE

This briefing booklet is aimed at the many kinds of people — not only farmers but also Members of Congress, congressional staff, lobbyists, new employees of USDA, and interested public — who want to understand U.S. farm policy in light of the recent legislative changes made by the 101st U.S. Congress.

This booklet is not meant to provide full and comprehensive coverage of the new farm policy but rather to give an introduction to what the changes are and how the main mechanisms will work for crops. Furthermore, the new legislation gives the Secretary of Agriculture a number of important discretionary authorities, and many of these were not fully decided at the time this briefing was published; therefore the reader will need to consult later USDA publications for additional details.

REVISED EDITION

This briefing booklet revises an earlier version published just before the President signed the 1990 Farm Act into law on November 28, 1990. Examples used in this briefing are based on USDA supply, demand, and price projections as of December 11, 1990.

Authors. This booklet is based on materials supplied by Keith Collins and Larry Salathe of the Economic Analysis Staff and by various researchers in the Economic Research Service of the U.S. Department of Agriculture. The booklet was designed and edited by William J. Hudson (The ProExporter Network™, Maumee, Ohio), under contract with the Economic Research Service.

Briefing Covers New Farm Policy in Four Main Parts

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Planting flexibility is one of the most significant changes in 1990 legislation compared to 1985. But note that others of the above listed mechanisms were changed in important ways.

New Farm Policy in 1990 Results from Two Statutes — The 1990 Farm Act and the 1990 Budget Reconciliation Act

DUAL STATUTORY STRUCTURE

- **"Food, Agriculture, Conservation, and Trade Act of 1990"**

Commonly called "The 1990 Farm Act" or "The 1990 Farm Bill." This act amends permanent legislation, "The Agricultural Act of 1949," and it supersedes the 1985 Farm Bill (officially called "The Food Security Act of 1985").

- **"Agricultural Reconciliation Act of 1990"**

Commonly called "The 1990 Budget Reconciliation Act." This act implements the 1990 deficit reduction agreement, which prescribes spending cuts of more than \$13 billion for agriculture over the Fiscal Year 1991-95 period.

Although the 1990 Farm Act makes many important changes in farm programs, the 1990 Budget Reconciliation Act modifies many of those changes in order to reduce outlays as required by the deficit reduction agreement. Most of the required agricultural budget reductions come from price support and income support programs, and because the cuts were significant, the Budget Reconciliation Act had to make major changes in farm programs and mechanisms in order to achieve the savings.

Permanent Farm Legislation. The first major U.S. agricultural laws with price support provisions were enacted in the 1930s. After World War II, support provisions were re-codified in The Agricultural Act of 1949, which still serves as the main U.S. farm law. At 5-year intervals, a new Farm Act is passed which amends the 1949 Act and which supersedes the previous 5-year Farm Act.

1990 Farm Bill Contains 25 Titles, of Which Only 7 Are Covered in this Briefing

TITLES OF THE 1990 FARM BILL

- I. Dairy
- II. Wool and Mohair
- III. Wheat
- IV. Feedgrains
- V. Cotton
- VI. Rice
- VII. Oilseeds
- VIII. Peanuts
- IX. Sugar
- X. Honey
- XI. General Commodity Programs
- XII. State and Private Forestry
- XIII. Fruits, Vegetables, and Marketing
- XIV. Conservation
- XV. Agricultural Trade
- XVI. Research
- XVII. Food Stamp and Related Provisions
- XVIII. Credit
- XIX. Agricultural Promotion
- XX. Grain Quality
- XXI. Organic Certification
- XXII. Crop Insurance and Disaster Assistance
- XXIII. Rural Development
- XXIV. Global Climate Change
- XXV. Other Provisions

This booklet discusses the major changes in legislation for program crops and conservation. It does not attempt to address the wide array of other legislative changes in the 1990 Farm Bill.

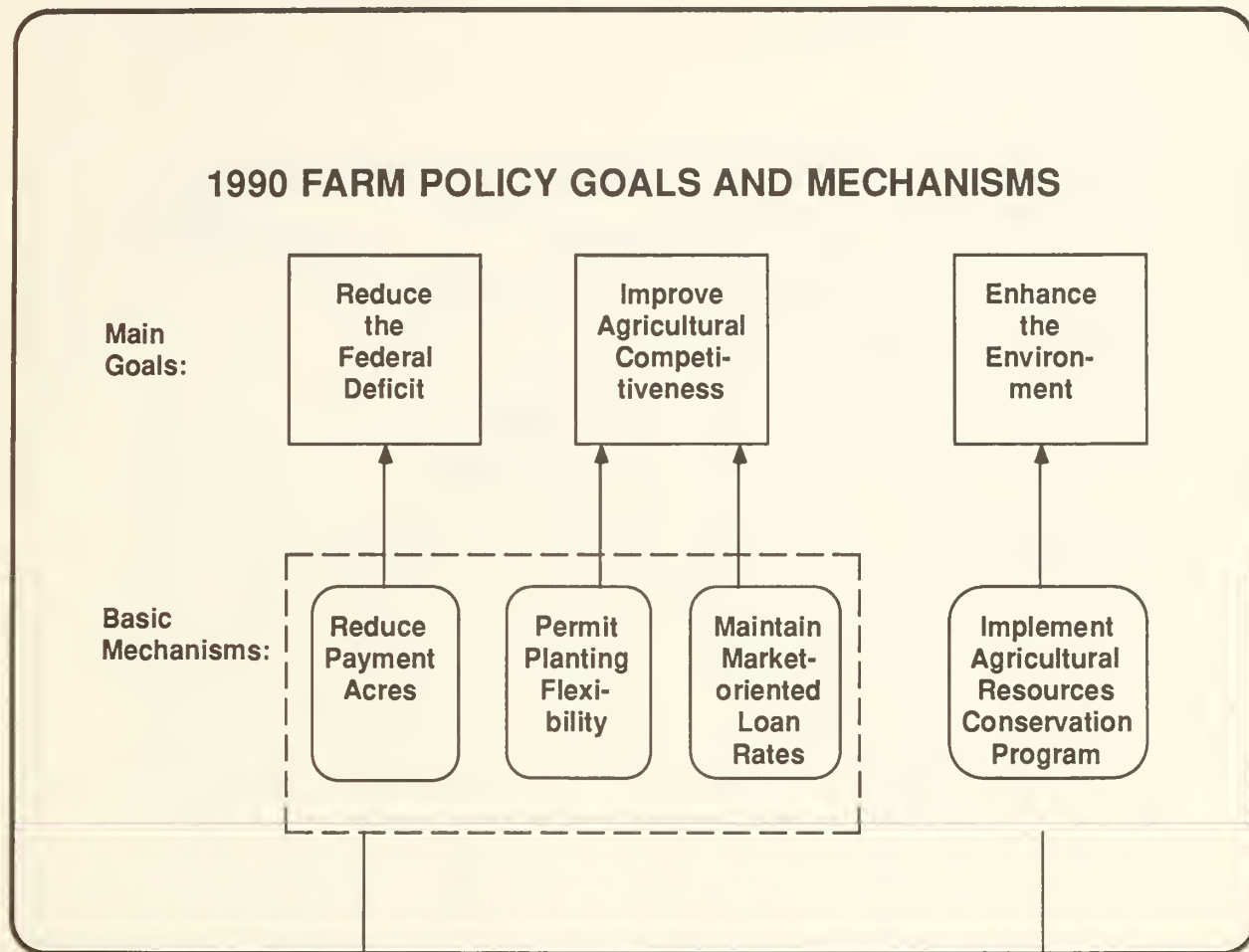
1990 Farm Legislation Enacted in Different Setting from 1985 — With Federal Budget Deficit as Dominant Concern

FARM POLICY SETTING, 1990 VS. 1985

| Year | Problems | | | | |
|------|---|---------------------------|--|---|--|
| | Financial stress | Farm program costs | Crop surpluses | Export competitiveness | Environmental |
| 1985 | Over 200,000 farms considered vulnerable | \$25.8 billion for FY1986 | Grain carryover stocks at 69% of use for 1985-86 | U.S. agricultural exports \$26 billion for FY1986 | Zero acres in Conservation Reserve Program |
| 1990 | About 100,000 farms considered vulnerable | \$6.5 billion for FY1990 | Grain carryover stocks at 30% of use for 1990-91 | U.S. agricultural exports \$40 billion for FY1990 | 34 million acres in Conservation Reserve Program |

The main goals of 1990 legislation were (1) to further reduce spending, (2) to help maintain farm income growth through expanding exports, and (3) to enhance the environment.

1990 Farm Policy Goals of Reduced Spending, Stable Farm Income, and Enhanced Environment Require Changes in Mechanisms



*These mechanisms were chosen in 1990 to replace declining Target Prices, declining Loan Rates, and no planting flexibility of 1985 Farm Bill. As will be seen from the examples in this briefing, **the new mechanisms interact and jointly affect the main goals.***

Conservation Reserve Program (CRP) of the 1985 Farm Bill has been altered to cover lands adversely affecting water quality and wetlands, and a new Water Quality Protection Program has been added.

1990 Farm Legislation Freezes Minimum Target Prices on Program Crops at 1990 Levels for 5 Years

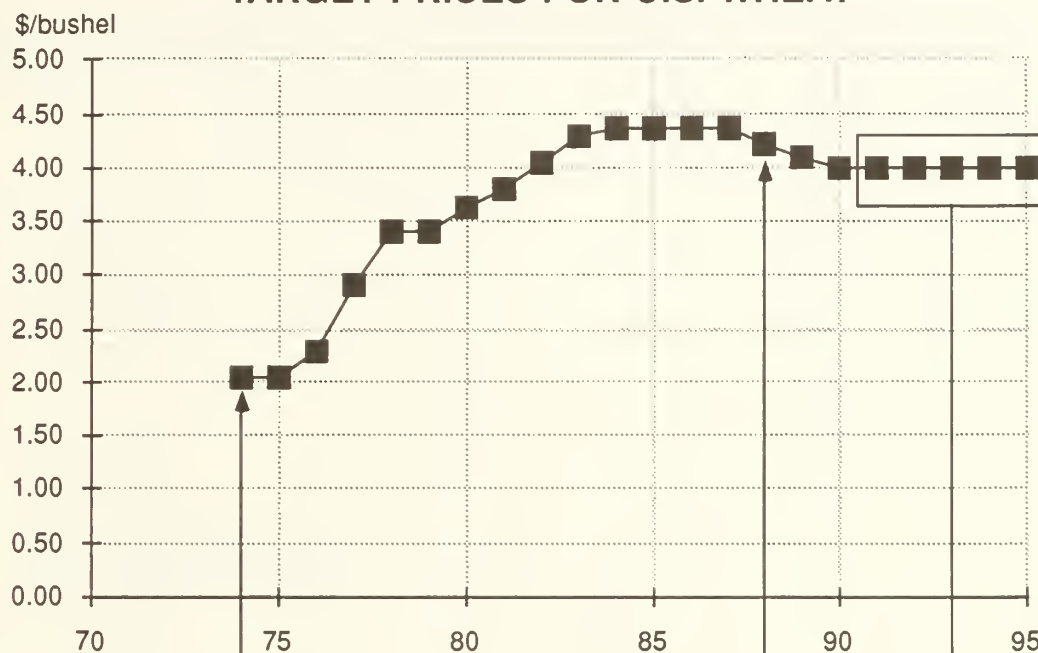
TARGET PRICES UNDER OLD AND NEW FARM BILLS

| Crop | Unit | 1985 Farm Bill | | | | | 1990 Farm Bill |
|---------|--------|----------------|-------|-------|-------|-------|----------------|
| | | 86-87 | 87-88 | 88-89 | 89-90 | 90-91 | 91-95 |
| Wheat | \$/bu | 4.38 | 4.38 | 4.23 | 4.10 | 4.00 | 4.00 |
| Rice | \$/cwt | 11.90 | 11.66 | 11.15 | 10.80 | 10.71 | 10.71 |
| Corn | \$/bu | 3.03 | 3.03 | 2.93 | 2.84 | 2.75 | 2.75 |
| Sorghum | \$/bu | 2.88 | 2.88 | 2.78 | 2.70 | 2.61 | 2.61 |
| Barley | \$/bu | 2.60 | 2.60 | 2.51 | 2.43 | 2.36 | 2.36 |
| Oats | \$/bu | 1.60 | 1.60 | 1.55 | 1.50 | 1.45 | 1.45 |
| Cotton | ¢/lb | 81.0 | 79.4 | 75.9 | 73.4 | 72.9 | 72.9 |

Definition. A "Target Price" is a government-set price for "program crops" (e.g., wheat, feedgrains, cotton, and rice) used to calculate the per bushel, per pound, or per hundredweight government payment that is made to producers who participate in the commodity's farm program.

Target Price Freeze Comes After Decline Provided for in 1985 Farm Bill

TARGET PRICES FOR U.S. WHEAT



1974, first year of Target Prices.

1988, first year in which Target Price declined since inception.

Minimum Target Price frozen for life of 1990 Farm Bill, from 1991 to 1995.

Ramifications. Decision to freeze Target Prices means that other mechanisms must be looked to for the reduction in farm program spending called for in the Federal deficit reduction agreement. The principal mechanism for accomplishing this is Reduced Payment Acres, explained later in this briefing.

1990 Farm Bill Changed Method of Determining Loan Rates for Grains, Soybeans, and Other Oilseeds

CHANGES IN PRICE SUPPORT LOAN RATES

| Crop | Same or changed from 1985 Farm Bill |
|------|--|
|------|--|

| | |
|------------|---------|
| Feedgrains | Changed |
|------------|---------|

| | |
|-------|---------|
| Wheat | Changed |
|-------|---------|

| | |
|------|------|
| Rice | Same |
|------|------|

| | |
|---------------|------|
| Upland cotton | Same |
|---------------|------|

| | |
|----------|---------|
| Soybeans | Changed |
|----------|---------|

| | |
|----------------|---------|
| Other oilseeds | Changed |
|----------------|---------|

The 1990 Farm Bill relies on first determining a "Basic Loan Rate" and then making adjustments according to stocks-to-use ratios and according to the Secretary's discretion to maintain competitiveness. The result after these adjustments is called the "Announced Loan Rate."

Definitions. A "Loan Rate" is the rate at which the government will provide a loan to farmers to enable them to hold their crops for sale at some later date. Only farmers participating in farm programs are eligible for such loans. The Loan Rate is per bushel, pound, or hundredweight of production, and the term of the loan is usually 9 months.

A commodity loan under the government farm program is "nonrecourse." This means that the government has no recourse but to take the crop itself as full repayment of the loan, if the farmer so desires — no matter how far market price may have fallen.

1990 Farm Legislation Sets Basic Loan Rate for Wheat and Feedgrains at 85 Percent of Market Price, Before Adjustments

CALCULATING BASIC LOAN RATES FOR 1991

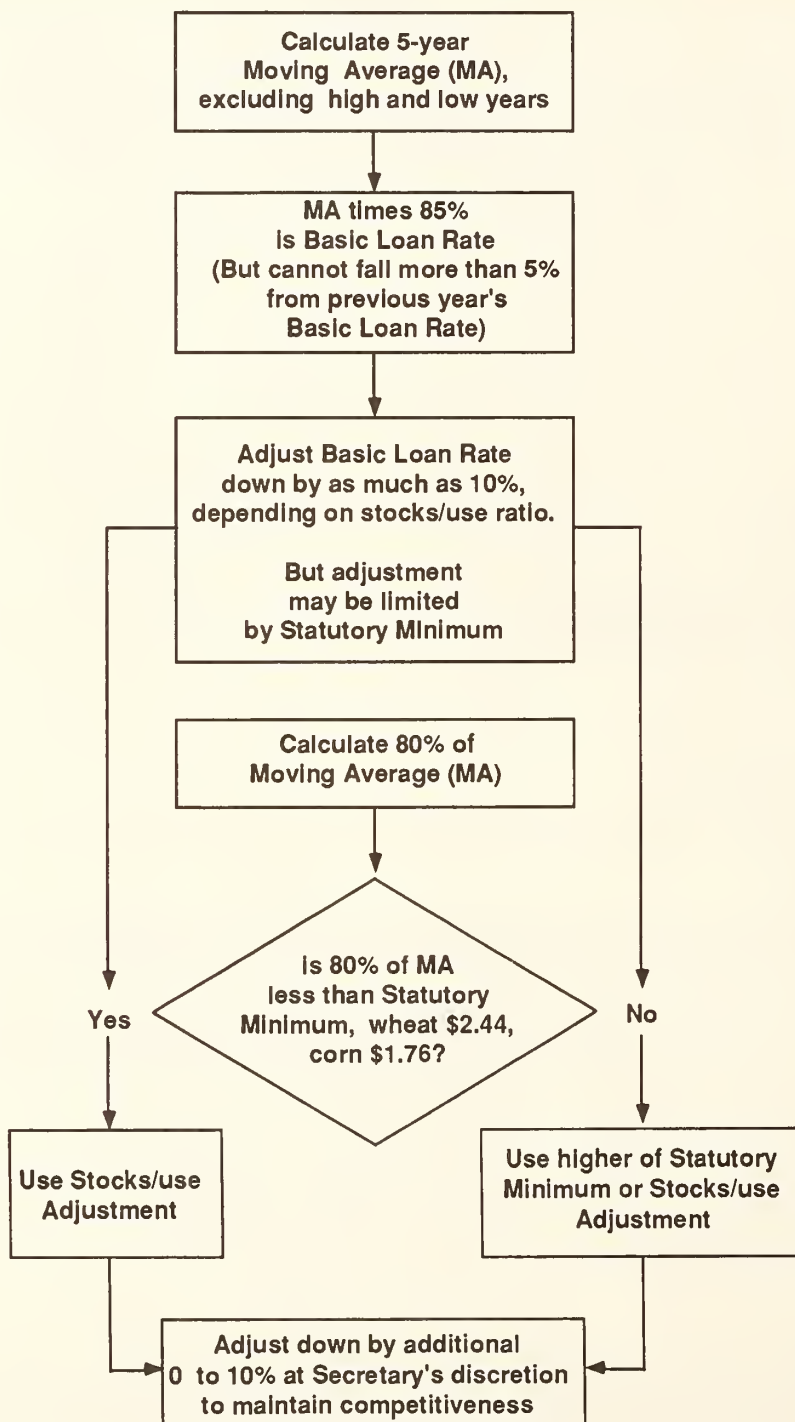
| Crop year | Wheat | | Corn | |
|---|--|--------------------------|--|--------------------------|
| | Annual average price received by farmers | Exclude high & low years | Annual average price received by farmers | Exclude high & low years |
| | \$/bushel | | | |
| 86-87 | 2.42 | | 1.50 | |
| 87-88 | 2.57 | 2.57 | 1.94 | 1.94 |
| 88-89 | 3.72 | 3.72 | 2.54 | |
| 89-90 | 3.72 | | 2.36 | 2.36 |
| 90-91 projected | 2.60 | 2.60 | 2.35 | 2.35 |
| 5-year moving average (MA) excluding high and low years | | 2.96 | | 2.22 |
| 85% of 1991 MA | | 2.52 | | 1.89 |
| 95% of previous year's Basic Loan Rate | | 2.32 | | 1.86 |
| Basic Loan Rate (projected) | | 2.52 * | | 1.89 * |

The Basic Loan Rate cannot fall more than 5 percent from the previous year's level. In this example, the Basic Loan Rate cannot be below \$2.32 (\$2.44 x 95%) for wheat and \$1.86 (\$1.96 x 95%) for corn. The Basic Loan Rate may be adjusted every crop marketing year on the basis of the crop's stocks-to-use ratio, but subject to a statutory minimum formula and to further adjustment at the Secretary's discretion to maintain competitiveness.

***Important Note.** The calculations for 1991 Loan Rates shown in this booklet are intended to illustrate the new methods of computation in the 1990 farm legislation. Actual Loan Rates will depend on projected market prices at the time the Loan Rates are announced.

Basic Loan Rate Adjusted Down If Crop's Stocks-to-Use Ratio High, and/or by Secretarial Discretion to Maintain Competitiveness

DETERMINING LOAN RATES FOR WHEAT AND FEEDGRAINS



"Basic Loan Rates" for Wheat and Feedgrains to be Adjusted Down to "Announced Loan Rates"

PROJECTING ANNOUNCED LOAN RATES FOR 1991

| Item | Wheat | | Corn | |
|---|----------------------------------|---------------|----------------------------------|---------------|
| | -----\$/bushel ----- | | | |
| Basic Loan Rate (projected) | | 2.52 | | 1.89 |
| Adjustment based on stocks-to-use ratios | <u>Stocks-to- use ratios</u> | | <u>Stocks-to- use ratios</u> | |
| Adjust down 10%, if | above 30% | 2.27 | above 25% | na |
| Adjust down 5%, if | 15 to 30% | na | 12.5 to 25% | 1.80 |
| Adjust down 0%, if | less than 15% | na | less than 12.5% | na |
| But is 80% of MA | 2.37 | | 1.78 | |
| less than statutory minimum? | 2.44 | | 1.76 | |
| Yes, use stocks/use adjustment | | 2.27 | | na |
| No, use higher of statutory minimum and stocks/use adjustment | | na | | 1.80 |
| Additional adjustment to maintain competitiveness | up to 10% | 2.04 | up to 10% | 1.62 |
| Announced Loan Rate (projected) | | 2.04 * | | 1.62 * |

Adjustments to Basic Loan Rates will be announced before program signup.

***Important Note.** The calculations for 1991 Loan Rates shown in this booklet are intended to illustrate the new methods of computation in the 1990 farm legislation. Actual Loan Rates will depend on projected market prices at the time the Loan Rates are announced.

Loan Rates for Rice and Cotton Based on Percentage of Past Market Prices, but May Not Fall Below Certain Designated Levels

DETERMINING LOAN RATES FOR RICE AND COTTON

Rice

85 percent of the 5-year moving average of past market prices excluding the highest and lowest years.

The loan level may not be reduced more than 5 percent from the previous year's level and no lower than \$6.50 per hundredweight.

Upland cotton

Not less than the smaller of:

- a. 85 percent of the 5-year moving average of U.S. spot market prices excluding the highest and lowest years, and
- b. 90 percent of the average 5 lowest priced growths quoted for Middling 1-3/32 inch cotton, c.i.f. northern Europe, adjusted by the difference between the northern Europe price quotation and the spot price in the United States.

The loan level may not be reduced more than 5 percent from the previous year's level and not lower than 50 cents per pound.

The 1990 Farm Bill did not change the method for calculating Loan Rates for rice and upland cotton.

**Soybean Loan Set at \$5.02; in Addition, New Programs
for Minor Oilseeds Set Loans at 8.9 Cents per Pound. All
Loans Subject to 2-Percent Loan Origination Fee**

LOAN RATES FOR SOYBEANS AND OILSEEDS

| Oilseed | Unit | Loan rate | <i>All subject to 2% Loan origination fee</i> |
|--|-------|---|---|
| Soybeans | \$/bu | 5.02 | |
| Sunflower seed, canola, rapeseed, safflower, mustard seed, flaxseed | ¢/lb | 8.9 | |
| Other oilseeds, if loans are implemented | | Fair and reasonable relative to soybeans | |

SOYBEAN LOAN ORIGINATION FEE

| Item | Amount |
|-------------------------------------|-------------------|
| 1,000 bushels @ \$5.02 per bushel | \$5,020.00 |
| Less 2-percent loan origination fee | <u>(\$100.40)</u> |
| Value of loan to producer | \$4,919.60 |

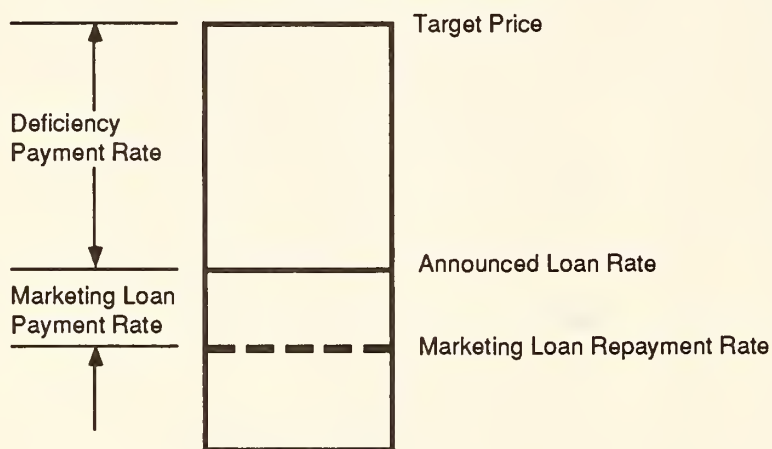
The 2-percent soybean loan origination fee is subtracted from the value of the loan. Thus, instead of receiving \$5.02 for each bushel of soybeans placed under loan, the farmer receives \$5.02 less 2 percent, or \$4.92 per bushel.

1990 Farm Bill Adds Mandatory Marketing Loans for Soybeans and Other Oilseeds

MARKETING LOAN STATUS

| Crop | 1985 Farm Bill | 1990 Farm Bill |
|----------------|-------------------|-------------------|
| Feedgrains | Discretionary | Discretionary |
| Wheat | Discretionary | Discretionary |
| Rice | Mandatory | Mandatory |
| Upland cotton | Mandatory | Mandatory |
| Soybeans | Discretionary | Mandatory |
| Other oilseeds | No authority | Mandatory |

MARKETING LOAN MECHANISM



Definition. Marketing loans permit the repayment of loans at less than the Loan Rate in order to prevent the Announced Loan Rate from being a floor. When World Price is low, the Marketing Loan avoids crops being held under loan, isolated from the market, and forfeited to the government. Producers can repay their loans at the Loan Repayment Rate, sell the commodity, and receive the difference between the Announced Loan Rate and the Repayment Rate.

1990 Farm Bill Retains Previous Method of Deficiency Payment Rate Calculation for 1991-93 Crop Years

EXAMPLE DEFICIENCY PAYMENT RATE CALCULATIONS, WHEAT, CROP YEARS 1991-93 (1990 FARM BILL)

| Item | Market Price above Basic Loan Rate | |
|---------------------------------|---------------------------------------|----------------------|
| | Target vs. Loan | Target vs. Market |
| | \$/bushel | |
| Target Price | 4.00 | 4.00 |
| 5-month Market Price | | <u>3.00</u> |
| Basic Loan Rate | <u>2.52</u> | |
| Difference | 1.48 | 1.00 |
| Basic Loan Rate | 2.52 | 2.52 |
| Season average Market Price | | <u>3.15</u> |
| Reduced (Announced) Loan Rate | <u>2.04</u> | |
| Difference (if positive) | 0.48 | 0.00 |
| Maximum Deficiency Payment Rate | 1.96 | |
| Actual Deficiency Payment Rate | | 1.00 |

Season average Market Price (\$3.15) is not used when Market Price is above Basic Loan Rate.

Target Price minus Announced Loan Rate is the Maximum Deficiency Payment Rate.

If Season average Market Price is above the Basic Loan Rate, then the Actual Deficiency Payment becomes Target Price minus the higher of Basic Loan Rate and 5-month Market Price.

Important Note. Prices used in this and other Deficiency Payment examples were chosen only to illustrate the new methods of computation in the 1990 Farm Bill.

Continued —

1990 Farm Bill Retains Previous Method of Deficiency Payment Rate Calculation for 1991-93 Crop Years, Continued

EXAMPLE DEFICIENCY PAYMENT RATE CALCULATIONS, WHEAT, CROP YEARS 1991-93 (1990 FARM BILL), CONT.

| Item | Market Price above Basic Loan Rate | | Market Price below Basic Loan Rate | |
|---------------------------------|---------------------------------------|-------------|---------------------------------------|-------------|
| | Target | Target | Target | Target |
| | vs. Loan | vs. Market | vs. Loan | vs. Market |
| \$/bushel | | | | |
| Target Price | 4.00 | 4.00 | 4.00 | 4.00 |
| 5-month Market Price | | <u>3.00</u> | | <u>2.35</u> |
| Basic Loan Rate | <u>2.52</u> | | <u>2.52</u> | |
| Difference | 1.48 | 1.00 | 1.48 | 1.65 |
| Basic Loan Rate | 2.52 | 2.52 | 2.52 | 2.52 |
| Season average Market Price | | <u>3.15</u> | | <u>2.45</u> |
| Reduced (Announced) Loan Rate | <u>2.04</u> | | <u>2.04</u> | |
| Difference (if positive) | 0.48 | 0.00 | 0.48 | 0.07 |
| Maximum Deficiency Payment Rate | 1.96 | | 1.96 | |
| Actual Deficiency Payment Rate | | 1.00 | | 1.55 |

When Season average Market Price is below the Basic Loan Rate, the higher of the 12-month Season average Market Price (instead of the 5-month Market Price) and the Announced Loan Rate is used to determine Actual Deficiency Payment Rate.

1990 Farm Bill Provides New Method of Deficiency Payment Rate Calculation for 1994-95 Crop Years

EXAMPLE DEFICIENCY PAYMENT RATE CALCULATIONS, WHEAT, CROP YEARS 1994-95 (1990 FARM BILL)

| Item | Market Price above Basic Loan Rate | | Market Price below Basic Loan Rate | |
|---------------------------------|---------------------------------------|-------------|---------------------------------------|-------------|
| | Target | Target | Target | Target |
| | vs. Loan | vs. Market | vs. Loan | vs. Market |
| \$/bushel | | | | |
| Target Price | 4.00 | 4.00 | 4.00 | 4.00 |
| 5-month Market Price | | 3.00 | | 2.35 |
| 5-month Market Price + \$0.10 | | 3.10 | | 2.45 |
| Season average Market Price | | <u>3.15</u> | | <u>2.45</u> |
| Basic Loan Rate | <u>2.52</u> | | <u>2.52</u> | |
| Difference | 1.48 | 0.90 | 1.48 | 1.55 |
| Basic Loan Rate | 2.52 | 2.52 | 2.52 | 2.52 |
| Season average Market Price | | <u>3.15</u> | | <u>2.45</u> |
| Reduced (Announced) Loan Rate | <u>2.04</u> | | <u>2.04</u> | |
| Difference (if positive) | 0.48 | 0.00 | 0.48 | 0.07 |
| Maximum Deficiency Payment Rate | 1.96 | | 1.96 | |
| Actual Deficiency Payment Rate | | 0.90 | | 1.55 |

After 1993, the 5-month Market Price will be replaced by the lesser of (1) the Season average Market Price, and (2) the 5-month Market Price plus \$0.10 for wheat, and \$0.07 for feedgrains, in determining the Actual Deficiency Payment Rate. If market prices are very low, this may or may not reduce the Deficiency Payment Rate. But when prices are high, it will likely reduce outlays.

1990 Farm Bill Also Changes Method of Calculating Deficiency Payment Rate for Rice But Not Upland Cotton in 1994-95

CALCULATION OF DEFICIENCY PAYMENT RATES FOR RICE AND UPLAND COTTON (1990 FARM BILL)

| Crop years | Rice | Upland Cotton |
|------------|--|---|
| 1991-93 | Target Price minus greater of 5-month Market Price and Announced Loan Rate. (Same as 1985 Act.) | Target Price minus greater of calendar year Market Price and Announced Loan Rate. (Same as 1985 Act.) |
| 1994-95 | <p>Target Price minus the lesser of the calendar year Market Price or the 5-month Market Price plus an appropriate amount that is fair in relation to the 10 cents for wheat and the 7 cents for feedgrains. (See previous page.)</p> <p>Payment rate cannot exceed the difference between the Target price and the Announced Loan Rate.</p> | Same as above. |

The method of calculating the Deficiency Payment Rate for upland cotton does not change after 1993, while it does for other program crops, which become similar to cotton by using 12-month Market Prices.

1990 Farm Bill Changes Triggers for Setting Acreage Reduction Programs (ARPs)

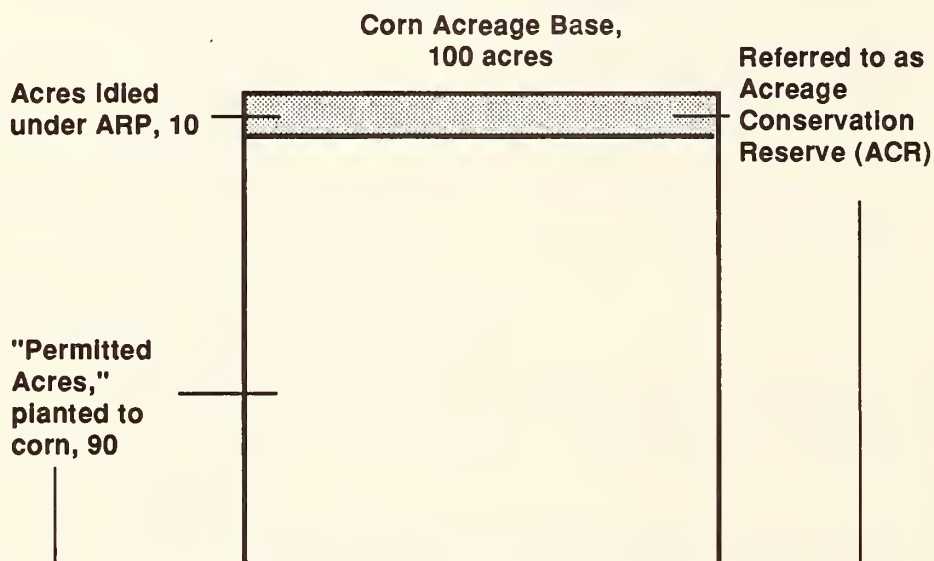
CHANGES IN ARP TRIGGERS

| Crop | 1985 Farm Bill | 1990 Farm Bill |
|---------------|---|--|
| Wheat | 0 to 20 percent if previous year's ending stocks were less than or equal to 1 billion bushels | <u>1991</u> Not less than 15 percent |
| | | <u>1992-95</u> 0 to 15 percent if previous year's stocks-to-use ratio is less than or equal to 40 percent |
| | | 10 to 20 percent if previous year's stocks-to-use ratio is greater than 40 percent |
| | | |
| Corn | 0 to 12.5 percent if previous year's ending stocks were less than or equal to 2 billion bushels | <u>1991</u> Not less than 7.5 percent |
| | | <u>1992-95</u> 0 to 12.5 percent if previous year's stocks-to-use ratio is less than or equal to 25 percent |
| | | 10 to 20 percent if previous year's stocks-to-use ratio is greater than 25 percent |
| | | |
| Rice | Set so that to the maximum extent practicable ending stocks will equal 30 million hundredweight | Set so that ending stocks will equal 16.5 to 20 percent of total use in the 3 preceding crop years |
| | ARP may not exceed 35 percent | ARP may not exceed 35 percent |
| Upland Cotton | Set so that to the maximum extent practicable ending stocks will equal 4 million bales | Set so that ending stocks will equal 30 percent of total use |
| | ARP may not exceed 25 percent | ARP may not exceed 25 percent |

Note. For 1990, ending stocks of 1 billion bushels of wheat is equivalent to a stocks-to-use ratio of 42 percent, 2 billion bushels of corn is equivalent to a stocks-to-use ratio of 25 percent, and 4 million bales of upland cotton equals 26 percent of total use. Thirty million hundredweight of rice equals 18 percent of use for 1988-90.

Crop Acreage Base, Program Yield, and Compliance with Acreage Reduction Program (ARP) Continue as Mechanisms to Determine Deficiency Payment

1985 FARM BILL EXAMPLE (10% ARP ASSUMED)



| | |
|--------------|---|
| 90 | Permitted Acres |
| <u>x 105</u> | Program Yield (bushels/acre) |
| = 9,450 | Program Production (bushels) eligible for Deficiency Payment |

ACR land, called Reduced Acres, must be put into an approved Conserving Use (CU) that protects the land from weeds, and from wind and water erosion.

New Legislation Allows More Planting Flexibility, While Protecting Crop Acreage Base

OLD METHOD OF CALCULATING CROP ACREAGE BASE, CASE OF CORN

| Item | Years | | | | | | | |
|---|-------|-----|-----|-----|-----|-----|----|----|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| | Acres | | | | | | | |
| Acres planted to corn | 80 | 80 | 80 | 80 | 80 | 64 | 64 | |
| Acres idled (considered planted to corn) | 20 | 20 | 20 | 20 | 20 | 16 | 16 | |
| Acres planted to soybeans | 20 | 20 | 20 | 20 | 20 | 40 | 40 | |
| Total corn acres (planted + considered planted) | 100 | 100 | 100 | 100 | 100 | 80 | 80 | |
| Base acres of corn (moving average for previous 5 years) | | | | | | 100 | 96 | 92 |

In this example of the old method (under the 1985 Farm Bill), the Corn Acreage Base declines because the farmer has elected to shift some corn acres to soybeans in years 6 and 7. This method was inflexible, and tended to keep acres in the program crop regardless of market signals, in order to protect the farmer's base and payments.

New Method. The 1990 legislation retains the concept of a Crop Acreage Base, but greatly expands on what constitutes "considered planted" to the program crop, and eliminates strict and limited cross compliance. However, a farmer cannot increase any Crop Acreage Base on a farm and remain eligible for payments on any program crop in that year.

1990 Farm Legislation Makes Significant Change in Crop Production Eligible for Deficiency Payments

PRODUCTION ELIGIBLE FOR DEFICIENCY PAYMENTS

| 1985 Farm Bill | 1990 Farm Legislation |
|--|--|
| Base Acres | Base Acres |
| - Reduced or Idled Acres | - Reduced or Idled Acres |
| | - 15 percent of Base Acres |
| = Maximum Payment Acres | = Maximum Payment Acres |
| x Program Yield | x Program Yield |
| = Maximum Production eligible for Payments | = Maximum Production eligible for Payments |
| x Deficiency Payment Rate | x Deficiency Payment Rate |
| = Maximum Deficiency Payments | = Maximum Deficiency Payments |

1990 Budget Reconciliation Act specifies that Deficiency Payments not be paid on 15 percent of Base Acres in addition to land idled in Acreage Reduction Programs.

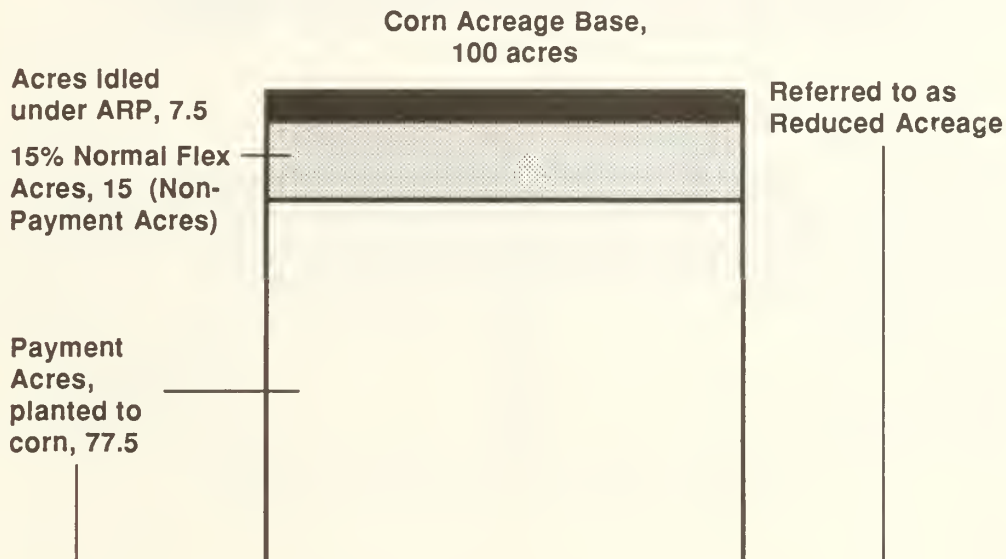
Definitions. Program Yields are official averages frozen in 1985 and have not been adjusted since then.

For wheat and feedgrains, the Crop Acreage Base is the 5-year moving average of land planted to a crop plus land "considered planted" to a crop, as certified and established by an office of the USDA. Land put into an approved Conserving Use (CU) is "considered planted" to the program crop in question.

For rice and upland cotton, the Crop Acreage Base is the average of the acreage planted and considered planted to the program crop for harvest on the farm in the 3 preceding crop years. An alternative formula based on planted acreage and considered planted acreage in the 5 previous crop years is available to farmers for 1991 who did not participate in 1989 and 1990 and to farmers for 1992 who did not participate in 1990 and 1991.

Acres Eligible for Deficiency Payment Reduced by 15 Percent of Base, the "Normal Flexible Acres"

1990 FARM LEGISLATION EXAMPLES (ASSUME 7.5% ARP)



| | |
|--------------|--|
| 92.5 | Permitted Acres |
| 77.5 | Payment Acres |
| $\times 105$ | Program Yield (bushels/acre) |
| = 8,138 | Program Production (bushels) eligible for Deficiency Payment |

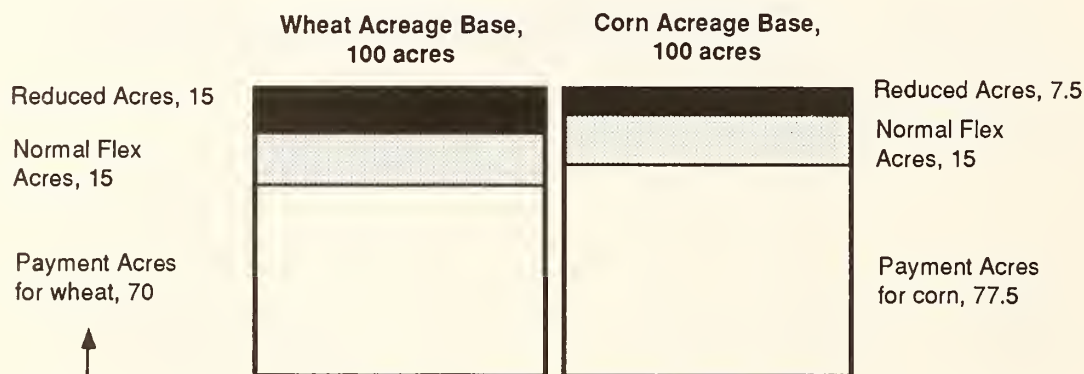
Continued —

Reduced Acres must be put into an approved Conserving Use (CU) that protects the land from weeds, and from wind and water erosion.

1991 Winter Wheat. New legislation gives producers of 1991 winter wheat a choice of (1) giving up payments on the 15% Normal Flex Acres as described above, with deficiency payments calculated as described on pages 15 and 16 (the 1991-93 method) or (2) retaining the right to collect wheat deficiency payments on the full permitted acres but with payments calculated as described on page 17 (the 1994-95 method).

1990 Farm Legislation Introduces 15% Normal Flex Acres

1990 FARM LEGISLATION EXAMPLES, CONTINUED (ASSUME 15% WHEAT, 7.5% CORN ARPS)



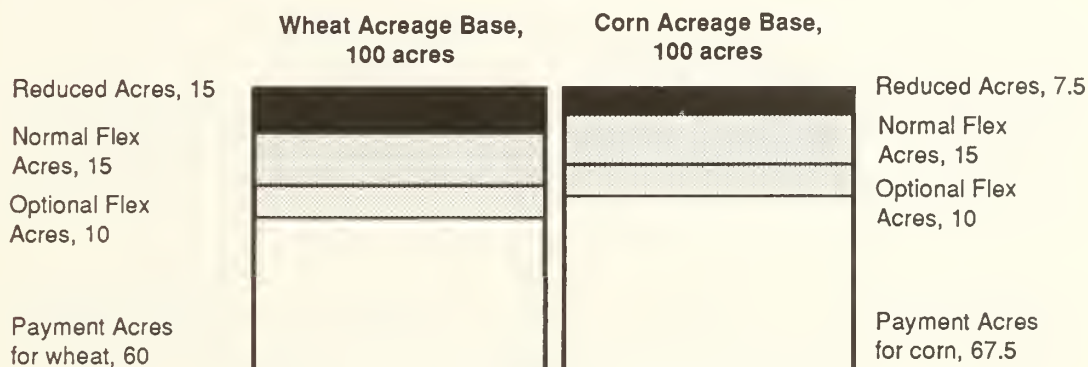
Continued —

The 1990 legislation specifies that ARPs be at least 15 percent for wheat and 7.5 percent for corn for 1991. Final announcement of ARPs will be made by the Secretary before signup. Farmer's maximum Payment Acres are reduced by 15 percent of Crop Acreage Base, the Normal Flex Acres.

Normal Flex Acres. New provision in legislation is that farmer may plant other crops on the 15 percent of Crop Acreage Base not eligible for payments without loss of Crop Acreage Base. Other crops which will be "considered planted" to the program crop include all other program crops, any oilseed crop, any industrial or experimental crop, and any other non-program crop except fruits and vegetables. The Secretary may preclude crops from Non-Payment Acres at his discretion, and if so, such crops will be announced before signup.

Base Protection Also Authorized on Up to 10% Additional Optional Flex Acres

1990 FARM LEGISLATION EXAMPLES, CONTINUED (ASSUME 15% WHEAT, 7.5% CORN ARPS)



Optional Flex Acres. Farmer wanting greater Planting Flexibility than the 15 percent of Base which is Normal Flex Acres may use up to an additional 10 percent of the Crop Acreage Base as Optional Flex Acres, subject to the same planting provisions. If farmer plants other program and permitted non-program crops on these additional Optional Acres, Deficiency Payments are lost on these acres, but the farmer's Crop Acreage Base is protected.

Contingency Soybean Provision. The new legislation specifies that if USDA determines that soybean price will be below \$5.27 (105 percent of the Loan Rate of \$5.02), USDA must prohibit soybeans on the 10% Optional Flex Acres.

Planting Flexibility Provisions Allow Market Signals to Guide Production Decisions

EXAMPLES OF PLANTING FLEXIBILITY

1. Normal Flex Corn Acres to Soybeans

| | Wheat Acreage Base, 100 acres | Corn Acreage Base, 100 acres | |
|-----------------------------|----------------------------------|---------------------------------|------------------------------|
| Reduced Acres, 15 | | | Reduced Acres, 7.5 |
| Normal Flex Acres, 15 | WHEAT | SOYBEANS | Normal Flex Acres, 15 |
| | | | |
| Payment Acres for wheat, 70 | WHEAT | CORN | Payment Acres for corn, 77.5 |

2. Normal Flex Wheat and Corn Acres to Soybeans

| | Wheat Acreage Base, 100 acres | Corn Acreage Base, 100 acres | |
|-----------------------------|----------------------------------|---------------------------------|------------------------------|
| Reduced Acres, 15 | | | Reduced Acres, 7.5 |
| Normal Flex Acres, 15 | SOYBEANS | SOYBEANS | Normal Flex Acres, 15 |
| | | | |
| Payment Acres for wheat, 70 | WHEAT | CORN | Payment Acres for corn, 77.5 |

Continued —

EXAMPLES OF PLANTING FLEXIBILITY, CONTINUED

3. Normal Flex Wheat and Corn Acres to Soybeans, and Optional Flex Corn Acres to Cotton

| | Wheat Acreage Base, 100 acres | Corn Acreage Base, 100 acres | |
|-----------------------------|----------------------------------|---------------------------------|------------------------------|
| Reduced Acres, 15 | | | Reduced Acres, 7.5 |
| Normal Flex Acres, 15 | SOYBEANS | SOYBEANS COTTON | Normal Flex Acres, 15 |
| | | | Optional Flex Acres, 10 |
| Payment Acres for wheat, 70 | WHEAT | CORN | Payment Acres for corn, 67.5 |

4. Normal and Optional Flex Wheat and Normal Flex Corn Acres to Soybeans, and Optional Flex Corn Acres to Cotton

| | Wheat Acreage Base, 100 acres | Corn Acreage Base, 100 acres | |
|-----------------------------|----------------------------------|---------------------------------|------------------------------|
| Reduced Acres, 15 | | | Reduced Acres, 7.5 |
| Normal Flex Acres, 15 | SOYBEANS | SOYBEANS COTTON | Normal Flex Acres, 15 |
| Optional Flex Acres, 10 | SOYBEANS | | Optional Flex Acres, 10 |
| Payment Acres for wheat, 60 | WHEAT | CORN | Payment Acres for corn, 67.5 |

Whether Farm Income Can Be Raised Depends on What Farmer Does with Flexible Acres

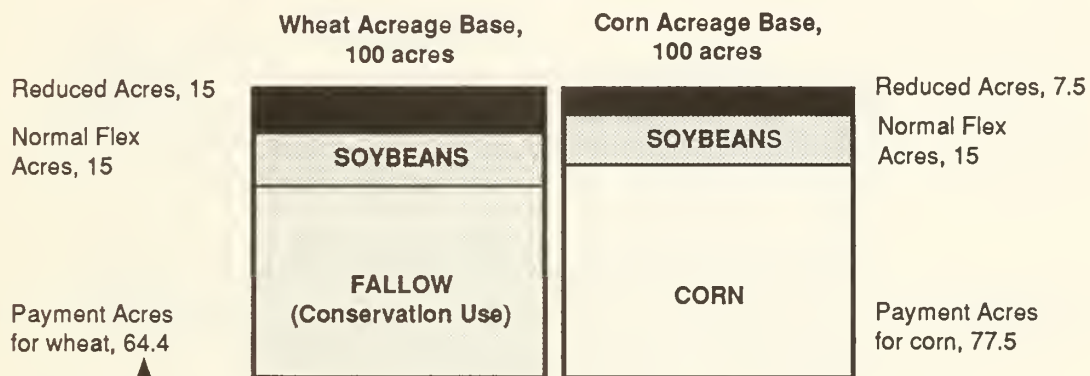
EXAMPLE OF INCOME FROM 200-ACRE FARM UNDER TWO PLANTING DECISIONS

| Base | Item | Units | Original crops | | 15% Normal Flex Acres to soybeans | |
|-----------------------|------------------------------------|-------|----------------|----------|-----------------------------------|----------|
| | | | Corn | Soybeans | Corn | Soybeans |
| Base 1. | Crop Acreage Base | ac | 100.0 | 100.0 | 100.0 | 100.0 |
| | Reduced Acres (assume 7.5% ARP) | ac | <u>-7.5</u> | | <u>-7.5</u> | |
| | Permitted Acres | ac | 92.5 | | 92.5 | |
| | Less Normal Flex Acres | ac | <u>-15.0</u> | | <u>-15.0</u> | |
| | Maximum Payment Acres | ac | 77.5 | | 77.5 | |
| Base 2. | Planted on Payment Acres | ac | 77.5 | 100.0 | 77.5 | 100.0 |
| | Actual Yield | bu/ac | 130 | 40 | 130 | 40 |
| | Production | bu | 10,075 | 4,000 | 10,075 | 4,000 |
| | Sell at Market Price | \$/bu | 2.30 | 5.75 | 2.30 | 5.75 |
| | Revenue from sale | \$ | 23,172 | 23,000 | 23,172 | 23,000 |
| | Eligible acres for Deficiency | ac | 77.5 | | 77.5 | |
| | Program Yield | bu/ac | 115 | | 115 | |
| | Program Production | bu | 8,912 | | 8,912 | |
| | Deficiency Payment Rate | \$/bu | 0.52 | | 0.52 | |
| | Revenue from Deficiency | \$ | 4,634 | | 4,634 | |
| Base 3. | Planted on Normal Flex Acres | ac | 15.0 | | | 15.0 |
| | Actual Yield | bu/ac | 130 | | | 40 |
| | Production | bu | 1,950 | | | 600 |
| | Sell at Market Price | \$/bu | 2.30 | | | 5.75 |
| | Revenue from sale | \$ | 4,485 | | | 3,450 |
| Total Revenue | | \$ | 32,291 | 23,000 | 27,806 | 26,450 |
| Actual planted acres | | ac | 92.5 | 100.0 | 77.5 | 115.0 |
| Cost per acre | | \$/ac | 150 | 65 | 150 | 65 |
| Total production cost | | \$ | 13,875 | 6,500 | 11,625 | 7,475 |
| Income by Crop | | \$ | 18,416 | 16,500 | 16,181 | 18,975 |
| Farm Income | | \$ | 34,916 | | 35,156 | |

In this example, farm incomes are higher when a portion of Base is planted to soybeans.

Payment Acres Devoted to Conservation Use Eligible for 92 Percent of Deficiency Payment (Zero-92 Program)

EXAMPLE OF ZERO-92 ON WHEAT ACREAGE BASE

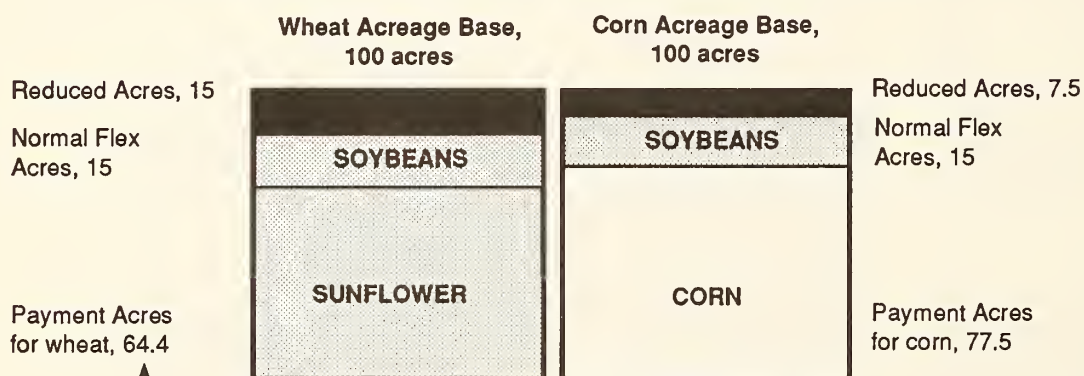


In this case, 64.4 is 92 percent of 70, the Maximum Payment Acres for wheat. Participant in Zero-92 Program is paid at least the Projected Deficiency Payment Rate, announced by USDA before signup.

1991 Winter Wheat. For producers of 1991 winter wheat who elect to have Deficiency Payment Rate computed by method prescribed for the 1994-95 crops (see page 17), their wheat Payment Acres, in the above example, would be $92\% \times 85 \text{ acres} = 78.2$ acres, providing that all 85 Permitted Acres are devoted to Conservation Use.

Zero-92 Acres May Also be Used as Flex Acres If Minor Oilseeds Are Planted

ZERO-92 EXAMPLE WITH MINOR OILSEED



In this case, farmer seeking additional Planting Flexibility plants a minor oilseed (such as sunflower, flaxseed, canola, and others) on wheat Payment Acres, is eligible for wheat Deficiency Payment on 64.4 acres (which is 92% x 70 acres), retains protection of Crop Acreage Base, but is not eligible for Marketing Loans on any of the acreage planted to the minor oilseed. Alternatively, the farmer could elect to give up Zero-92 Deficiency Payments and be eligible for Marketing Loans on acres planted to minor oilseeds.

Planting Flexibility Extends to Variety of Crops, Excludes Fruits and Vegetables, and is Subject to Secretarial Discretion

CROPS ELIGIBLE TO BE PLANTED ON NORMAL AND OPTIONAL FLEX ACRES

Program crops — wheat, feedgrains, rice, and cotton

Oilseeds — soybeans, sunflower seed, canola, rapeseed, safflower, flaxseed, mustard seed, and other oilseeds as determined by the Secretary

Other crops, except fruits and vegetables

Any experimental or industrial crop designated by the Secretary

But Secretary may prohibit the planting of any crop

Secretary will announce prohibited crops before program signup.

1990 Farm Bill Changes Many Features of Farmer-Owned Reserve (FOR)

CHANGES IN FARMER-OWNED RESERVE

| Item | 1985 Farm Bill | 1990 Farm Bill |
|------------------------------|---|---|
| Entry Trigger Price | Price below 140 percent of Announced Loan Rate | Price below 120 percent of Announced Loan Rate |
| Entry Trigger Quantity | | Stocks-to-use ratio greater than 37.5 percent for wheat and 22.5 percent for corn |
| Maximum Quantity | 300 mil. bu. to 30 percent of total use for wheat, and 450 mil. bu. to 15 percent of total use for feedgrains | Only maximum specified: 300 to 450 million bushels for wheat, and 600 to 900 million bushels for feedgrains |
| Release Price | Market Price exceeds Target Price | None. Farmers may sell reserve grain at any time |
| Storage Payment Stop Trigger | Market Price exceeds Target Price | Market Price exceeds 95 percent of Target Price |
| Interest Charge Trigger | Market Price exceeds Target Price | Market Price exceeds 105 percent of Target Price |

EXAMPLE CHANGES FOR 1990-CROP WHEAT FARMER-OWNED RESERVE

| Item | 1985 Farm Bill | 1990 Farm Bill |
|------------------------------|------------------------|------------------------|
| Entry Trigger Price | Price less than \$2.73 | Price less than \$2.34 |
| Release Price | Price exceeds \$4.00 | Not applicable |
| Storage Payment Stop Trigger | Price exceeds \$4.00 | Price exceeds \$3.80 |
| Interest Charge Trigger | Price exceeds \$4.00 | Price exceeds \$4.20 |

The 1990 Farm Bill will allow farmers to repay Reserve Loans at any time, and it requires the Secretary to allow entry when both the price and quantity triggers are met. The Secretary may allow entry when either the price or quantity is met. The Bill also lowered the Market Price at which the Secretary is required to allow entry of grain into the Reserve. In addition, Market Price need not rise as high before storage payments are discontinued.

1990 Farm Bill Also Changed Payment Limitations

PAYMENT LIMITATIONS

| Annual Limit | Payments subject to Limit |
|--------------|--|
| \$50,000 | <ul style="list-style-type: none"> • Deficiency Payments (Target Price less 5-month Market Price or Basic Loan Rate) • Paid Land Diversion |
| \$75,000 | <ul style="list-style-type: none"> • Deficiency Payments (Basic Loan Rate less Season average Market Price or Announced Loan Rate) • Marketing Loan gains (income received from repaying a loan below the Announced Loan Rate) • Loan Deficiency Payments |
| \$250,000 | <ul style="list-style-type: none"> • Payments subject to \$50,000 limit • Payments subject to \$75,000 limit • Resource adjustment payments • Disaster Payments under the 1949 Act • Inventory Reduction Payments |
| No limit | <ul style="list-style-type: none"> • Nonrecourse loans, except for honey |

Marketing Loan gains, Loan Deficiency Payments, and Target Price Deficiency Payments that are paid out because Market Price falls below the Basic Loan Rate for wheat and feedgrains are now subject to a \$75,000 payment limit per person. This is a reduction from the 1985 Act. However, the \$50,000 limit on regular Deficiency Payments is usually the most binding constraint for producers, and that limit is unchanged from the 1985 Act.

Note. There were also payment limit changes for honey and wool and mohair, commodities not addressed by this briefing.

1990 Farm Bill Modifies and Adds Conservation Provisions to Address Surface Water, Ground Water, and Wetland Issues

AGRICULTURAL RESOURCES CONSERVATION PROGRAM

| Program | Goal |
|--|--|
| Environmental Conservation Acreage Reserve Program | Broadens the existing Conservation Reserve Program (CRP) to include cropland that adversely affects water quality. In addition, to the extent practicable, 1 million acres of cropland must be enrolled in a wetlands reserve by 1995. The acreage in this program must total 40 to 45 million acres, including the nearly 34 million acres currently enrolled in the CRP. Under separate authority, the Secretary may acquire permanent easements on acreage in this program. |
| Agricultural Water Quality Protection Program | Enroll, to the extent practicable, a total of 10 million acres of land during 1991-95 near wellheads, areas inhabited by threatened or endangered species, or where agricultural production poses a threat to the quality of ground and surface water supplies. Incentive payments limited to \$3,500 per person per year and cost share assistance limited to \$1,500. Program is subject to appropriations. |
| Integrated Farm Management Program | Voluntary program to encourage producers to plant conserving crops. Farmers planting a conserving crop under this program may not lose payments or crop base. Participation is limited to 3 to 5 million acres of cropland during 1991-95 and contracts are to be for 3 to 5 years. |

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